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An IDACORP Company

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December 4, 2002

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, Idaho 83720-0074

RE: Case No. IPC-E-01-16
Commission Order No. 29102

Dear Ms. Jewell:

In Order No. 29102 issued in Case No. IPC-E-01-16 on August 28, 2002, the Commission directed Idaho Power Company to submit the Risk Management and Policy Manual and the 2003-2004 Risk Guidelines as approved by the Idaho Power Company Board of Directors Audit Committee to the Commission for final review and approval.

Attached to this Compliance Filing is the Idaho Power Company Energy Risk Management Policy Manual and the 2003-2004 Risk Guidelines as approved by the audit committee of the Board.

Three extra copies of this report are enclosed for Randy Lobb, Lisa Nordstrom, and Terri Carlock.

Very truly yours,

Betsy Galtney

Betsy Galtney

BG:ma
Enclosures
c: Randy Budge
David Hawk
Pam Eaton
Dan Kincaid
Francis McDonnell
Don Reading
Peter Richardson
Janice Stover
Lynn Tominaga
Ric Gale, IPCO
Bart Kline, IPCO

IDAHO POWER COMPANY ENERGY RISK MANAGEMENT POLICY MANUAL

November 2002

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I. Risk Management Policy Introduction and Scope

Idaho Power Company ("IPC" or "the Company") is an investor-owned utility serving customers in Idaho and Oregon.

The Company's customers and shareholders are exposed to a variety of market-driven and operational risks. For customers, these risks can lead to a higher cost of power. For shareholders, these risks can lead to a diminution in cash flow and net income. By resolution of the Idaho Power Company Board of Directors, (see Appendix A) the Company is mandated to engage in a program on behalf of both customers and shareholders that systematically identifies, measures, evaluates and actively manages and reports on the market-driven risks associated with its commercial operations.

The policies being established herein (collectively considered the "Manual") shall address the means by which the Company will manage these risks in a manner consistent with the Idaho Power Company Board of Directors' authorization to engage in such activity. The President may from time to time modify the Manual. **However, all changes to this Manual must ultimately be ratified by the Audit Committee of the Board of Directors and filed with the IPUC.**

Every employee involved in the risk management process must sign a personal acknowledgement form stating that they have read this Manual, understand this Manual and will comply with this Manual.

The Company shall create a risk management program that will overlay a control framework on existing commercial practices. Such a program will consist of the establishment of predefined risk parameters, a delineation of management responsibilities, and a set of organizational relationships within the Company. The program will further consist of the development and implementation of transaction accounting systems and procedures for systematically identifying, measuring, evaluating and responding to the variety of risks inherent in the Company's commercial operations. The program's control framework will consist also of a disclosure and reporting mechanism designed to keep the Senior Management team responsible for supervising risk and all levels of management fully informed of the operation's day-to-day status with respect to its performance parameters. The implementation of these control measures, which are detailed in the sections and appendices to this document, which follow, collectively will define, and constitute the Company's Energy Risk Management Program.

In addition to the policies set forth in this manual, the President, officers and all employees involved in the energy exposure management activities of the Company shall receive a copy of the *Idaho Power Company Energy Risk*

Management Procedures Manual, as that document becomes available. The *Procedures Manual* exists to define the operational implementation of the policies set out herein, and to ensure compliance by employees of the Company with the approved practices governing the Company's exposure management activities.

II. Establishment of a Collaborative Approach with Customers

Most of the risk management activity undertaken by IPC will be on behalf of customers. As a result, it is essential that IPC undertake to create and maintain a collaborative approach with customers surrounding the framework of the risk management program and specific implementation procedures. The risk management program will be characterized by the following features:

- IPC staff will undertake to conduct an annual collaborative review and additional workshops as needed with IPUC Staff and customer representatives to enhance the understanding of the risk profile faced by IPC's customers;
- IPC will seek input from IPUC Staff with respect to desired risk tolerances and solicit upfront support for proposed implementation procedures;
- IPC will provide IPUC Staff with regular updates on the status of the IPC risk position and its impact on the Power Cost Adjustment ('PCA") balance.

III. Energy Risk Management Policy Objectives

The objective of the IPC risk management program is to protect against adverse movements in the IPC PCA balance and to ensure that the PCA balance does not move beyond a tolerance level acceptable to customers and shareholders. The least cost energy supply will be identified and documented. However, the overall objective (to manage the cost of energy supply with respect for the risk tolerance of the stakeholders) should complement the Company's efforts to achieve the lowest cost of energy supply within the identified acceptable limits of risk.

In order to accomplish this objective, the risk management program will provide senior management, directors and customer representatives with a process to quantify the Company's PCA balance sensitivity to movements in energy markets and to manage the market-based risks.

The Company's risk management program will not contain an element whereby corporate risk management decisions are based on IPC's uncertain expectations of future market price movements. Risk management positions will not be established that create incremental aggregate market exposure to the Company. Risk management positions can only be established that reduce the Company's aggregate underlying exposure to market price movements. The decision to enter or not enter into any proposed hedging transaction will not be dictated by IPC's market price view.

The efficacy of the risk management program will be benchmarked against the contribution made by the risk management activity to the containment of PCA balances within agreed-upon risk tolerances called "Risk Guidelines". Gains or losses incurred on hedge positions in isolation will not be included in the benchmarking process.

IV. Organizational Structure

A. Board of Directors

The Board of Directors has ultimate responsibility from a corporate governance perspective for the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks. In this role, the Board of Directors will have the duty to have a workable understanding of the nature of the Company's risks and the basic strategies that can be used to map the Company's desired profile.

The Audit Committee of the Board of Directors will have direct responsibility for approving this Energy Risk Management Policy Manual ("Manual"). The IPC Risk Management Committee will have direct responsibility for approving the specific Risk Guidelines as per Appendix F, of this Manual. On an interim basis, certain discretion will be granted to the President with respect to modifications to the Manual. However, on a quarterly basis, any interim alterations authorized by the President must receive Board approval. The President will not be granted any interim discretion to alter the Company's System Risk Limit.

B. President, Idaho Power Company

The Manual defines the risk parameters that the President must observe and the risk management techniques that he/she must require the officers and employees to use in managing the Company's desired risk profile in conjunction with the desired risk profile of customers. At his/her discretion, the President may assign to officers or employees of operating groups or wholly owned subsidiaries of the Company certain responsibilities associated with this risk management function. Documentation of the assignment of responsibilities and the risk management decisions will be maintained to facilitate audit of the risk management function.

The President will establish the overall direction, structure, conduct, and control of the Company's energy risk management program, both in the physical market and the financial derivatives market. The President will have the interim authority between Board meetings to alter policies in this document, except that the Risk Guidelines cannot be altered without prior Board approval. Any interim alterations to the Manual authorized by the President must receive approval from the Board at the next quarterly Board meeting before these alterations become permanent. All alterations must be documented for IPUC and customer group review.

The President will have the authority to permit the deferral of risk mitigation activity should a Risk Guideline be breached.

The President is required to approve any energy risk management transaction with a duration longer than two years.

The President will request input from the IPC Risk Management Committee in any decision-making process surrounding energy risk management issues.

The President shall report at least annually to the IPC Board of Directors to obtain approval for the Company's policies, strategic direction, and program parameters surrounding its risk management program activities. Further, the President shall provide reports to the IPC Board of Directors at least quarterly on the nature and profile of the Company's market exposure and on the results of the risk management program activities. Copies of these reports will be maintained with the risk management documentation.

C. IPC Risk Management Committee

A senior management team established by the President is responsible for providing advice and recommendations to the President on energy risk management-related issues and providing senior level oversight of the risk management program. This group called the IPC Risk Management Committee, or "RMC", shall consist of those positions appearing in Appendix B. A quorum of the RMC will consist of at least 50% of the RMC membership.

The RMC may also request other parties to attend the meetings for expert advice/consultation, however those individuals will not be members of the RMC or be entitled to decide any matters on behalf of the RMC.

The RMC shall report at a minimum quarterly to the President to provide an update on the energy risk management program activities.

The RMC has been charged by the President with oversight responsibility for the following aspects of the risk management program:

a) Development of energy risk management policies and procedures;
b) Communication with external customer groups with respect to risk management issues and the solicitation of upfront support for any risk management initiative from these external groups;
c) Authorization of strategic hedging program guidelines under which hedges are to be established;
d) Authorization of specific commodities and derivative instruments to be traded;

e) Resolution of any disputes concerning the appropriate application of the Manual that may arise;
f) Development and authorization of appropriate systems for recording, monitoring and reporting the commodity exposure inherent in the Company's operations and the risk management activity undertaken to alter the underlying risk profile;
g) Recommendation to the Board of the appropriate Risk Guidelines based on the collaborative process with customer representatives.
h) Approval of the IPC Energy Risk Management Procedures Manual.

With the assistance of the Middle Office function responsible for the quantification of risk (as outlined in Section IV-E), the RMC will also be responsible for the monitoring of compliance with the Manual. To the extent that the RMC believes that compliance is not being maintained or risk tolerance parameters have been breached, they are required to give written direction to the appropriate officers or employees of the Company to take such action on the Company's behalf to bring it into compliance with the Manual. Such action shall be taken based on an affirmative majority vote of a quorum of the RMC.

The RMC's mandate also includes the ongoing general assessment of the appropriateness of the Company's strategies for energy risk management activities, taking into account current and expected future economic conditions and their effect on the general business environment, both internally and externally. **The policies described in this document cannot be altered except by approval of the President.**

The RMC or any officer of the Company may request that the President make a change in this Manual or its appendices. Such requests shall include an explanation of the application and benefit of the proposed change to the Company. For new risk management products, the explanation should also be in accordance with the New Product Initiation Process described in Section IX of this Manual. For any change in a policy or procedure described in this Manual to become effective, it must be approved by an affirmative vote of the President. The Risk Guidelines can only be modified with direct approval from the President. All modifications to this Manual must ultimately be ratified by the Audit Committee of the Board of Directors.

The RMC shall meet at least once a month, or more frequently as requested by the Chairman of the RMC. The purpose of the meetings will be to review the profile, performance, appropriateness, and current risk management activities of the Company. Minutes of the RMC meeting will be kept as an accurate record of the actions of the RMC.

The RMC will also have responsibility for the preparation of the Annual

Benchmarking Report covering the qualitative aspects of the energy risk management program activities.

D. Risk Management Execution (Front Office)

The execution of day-ahead and real-time transactions will be conducted by Idaho Power Company or its designee. The execution of term transactions for periods beyond the day-ahead timeframe will be performed by a designated IPC Trader. The Policy Manual and accompanying Procedures Manual will identify a largely automated approach to the implementation of hedge transactions, with very limited Trader discretion. The Procedures Manual outlines the competitive bidding process that must be undertaken by the Trader for all IPC term transactions.

E. Risk Evaluation (Middle Office)

The monitoring and reporting of IPC's risk positions will be conducted by the IPC Risk Evaluation Group or its designee. This IPC Risk Evaluation Group shall serve as an independent compliance group for the Company's energy risk management program, providing periodic revised forecasts of the PCA balance based on current forward market conditions and the potential variance in the PCA forecast based on different pricing and resource availability scenarios. The designee is responsible for measuring, evaluating, and reporting to the Company's management and the RMC the amount of exposure faced by the Company and its customers through its portfolio of ongoing operating exposures and outstanding risk management transactions.

The IPC Risk Evaluation oversight responsibilities will include the following:

- involvement in corporate decisions that impact the Company's exposure to market and operational risks;
- development and maintenance of the process and systems to identify, quantify and report the market risks embedded in the operations of the Company;
- quantification of market exposures from a corporate perspective;
- ensuring that limits prescribed in this Manual are not exceeded;
- monitoring approved counterparty credit exposures for risk management transactions undertaken by IPC;
- notification to the RMC as soon as market risk or credit risk limits are exceeded;
- review of transactions involving new commodities, new delivery points and/or new risk management structures. This review will consider potential liquidity constraints and the ability to monitor the position through time, following the guidelines established for the New Product Initiation Process described in Section IX; and

- preparation of reports with respect to current positions, including the forecast PCA balance and the potential variability in the PCA balance.

F. Resource Dispatch Planning

IPC staff is responsible for the development of resource availability forecasts and load forecasts. This data will be used to optimize the resource dispatch plan.

G. Treasury

The Treasury function within IPC will have the following responsibilities:

- to make and receive payments under all term transactions;
- to control the flow of confirmations for term transactions;
- to maintain the appropriate accounting of hedge transactions;
- determination of credit ratings to counterparties.

H. Legal and Regulatory Affairs

The IPC Legal Department will assist in the counterparty documentation process outlined in Section IX of this Manual. Regulatory Affairs will have the responsibility to co-ordinate the collaborative approach with customer representatives and to ensure the receipt of appropriate risk management information by IPUC Staff.

I. Long Term Resource Planning

Longer term resource acquisition policies will continue to be governed by the Integrated Resource Planning (IRP) process. The planning coordination between the IRP and the risk management policies will be reviewed and discussed with customer representatives and Commission Staff in conjunction with the annual establishment of risk management guidelines described below. The Risk Guidelines as adopted each year will reflect a collaborative effort between Idaho Power, customer representatives, and the Idaho Public Utilities Commission Staff. The Company will consider supply-side options for resource acquisition consistent with the IRP in the annual Risk Guideline development process. The IRP process will operate under the direction of the RMC.

V. Market Risk

The quantification of market risk for electric generation and distribution companies is a complex process. The Manual calls for the development of a risk quantification framework over time while recognizing the need in the interim to define a risk management implementation strategy prior to the establishment of the requisite risk quantification system. The Market Risk section of the Manual begins by outlining the interim market risk management approach and is then followed by a description of the nature of the risk management approach and guidelines that IPC will strive to implement over the medium term as the technology to monitor the IPC risk position in a more advanced fashion is employed.

A. The Interim Risk Guidelines – Risk Guidelines - The Three Tier Approach

In the interim, IPC will define market risk as the exposure to adverse movements in regional power prices, in conjunction with adverse hydro conditions. The risk management horizon covered by this Manual will be centered around PCA year periods. Risk will be tracked for the current PCA year and will be tracked for the subsequent PCA year beginning on October 1st.

The proposed implementation strategy would have three risk limit structures or tiers. The first level of exposure limit would be tied to estimates of the impact of worst-case prices and worst-case hydro resources on the year-end PCA balance. The second exposure limit would be a monthly volumetric exposure limit. The third tier takes advantage of low-price market conditions when the benefit to customers of participating in a further price decline falls below the benefit of avoiding the impact of any subsequent price rise.

(i) Tier One – System Risk Limit

IPC through the collaborative process with the IPUC Staff and customers will set an upper tolerance limit for the negative variance between the Baseline Expected Cost Forecast ("BECF") and the low water/high price scenario called the System Risk Limit (see Appendix F). This maximum negative variance is established annually by the RMC. The parameters for the estimation of the BECF are as follows:

- The BECF is established on October 1 prior to the commencement of the upcoming PCA year;

- The BECF is based on expected water conditions based on system conditions on October 1;
- The BECF is based on current forward market prices to estimate purchase power costs and the revenue from any forecast surplus.

The parameters for estimation of the low water/high price scenario are as follows:

- Low water is based on current snowpack and 50% of normal precipitation through the remainder of the current runoff season;
- The high price is calculated on the basis of a 95% confidence interval move based on a lognormal distribution and implied volatility levels sourced from the marketplace. Only one time in 20 would one expect to witness a rise in price greater than the high price estimation;
- The high price is applied only to those months where a deficit is forecast under a low-water year scenario. The current forward market price will be applied to all other forward months.

On at least a monthly basis or more frequently if mandated by the RMC, updates will be run on the low water/high price scenario and the expected cost forecast. The revised expected forecast will be used for the second tier limit structure but does not form a component of the first tier limit analysis.

If the variance between the updated low water/high price cost scenario and the BECF is greater than the System Risk Limit established by the RMC, forward purchases will be executed to reduce the risk below the variance limit. The parameters governing the execution of hedge transactions are as follows:

- IPC will establish hedges first on the nearest-month deficit positions and will continue to move out along the forward curve until sufficient hedges have been established so that the variance between the low water/high price scenario and the BECF has fallen below the limit. The rationale for this approach is to take advantage of more attractive liquidity characteristics in near-term forward months;
- Hedges will be established in minimum tranches;
- If revisions to the low water/high price scenario create a situation where hedges can be removed without the variance rising above the limit, then IPC will remove hedges in minimum tranches beginning with near months and extending the hedge liquidation out along the forward curve until the point where any further liquidation would result in a variance greater than the limit.

The risk management transactions dictated by the Tier One limit structure will take precedence over the Tier Two limit structure and Tier Three opportunities

The RMC may modify its hedging activities associated with Tier One constraints to recognize more efficient market transactions (i.e. buy for a quarter instead of individual months).

(ii). Tier Two –Volumetric Limit (Deficiencies and Surpluses)

IPC will limit its HL and LL volumetric exposure for any month during the PCA year in question to a maximum number of MW as indicated in Appendix F. The parameters around this limit structure are as follows:

Deficiencies are managed to the expected water scenario;

- Surpluses are managed to the low water scenario;
- Hedges would be established in minimum MW tranches to bring IPC back below the Volumetric Limit;
- New forecasts could result in a reduction in underlying positions that would allow for the liquidation of hedge positions that are no longer needed to keep positions under the Volumetric Limit. Positions would be liquidated in minimum MW tranches, as outlines in Appendix F, if this can be done without causing a position limit breach;
- Positions will be determined on a flat basis for both HL and LL without regard for hourly shaping at this time;
- Positions will be determined based on "in-the-money" resources. Peaking units which are deemed to be uneconomic based on current forward prices would not be included in the determination of total resources;
- The initial establishment of position limit hedges will commence on October 1 and must be executed by December 31 of the year prior to the upcoming PCA year. Positions will be established in a ratable fashion. The rationale for execution flexibility is not to take advantage of price views but to ensure the orderly execution of these forward positions in the marketplace.
- For those months where forward market liquidity exists for multiple-month blocks (e.g. quarterly) rather than single month blocks, IPC will initially manage the exposure on a quarterly basis. For example, if one was deemed to be in deficit one month 300 MW and in surplus 150 MW in each of the two other months in the quarter, the quarterly position would be deemed to be flat and no hedging would be required. If the net quarterly position was in excess of the volumetric limit, a quarterly hedge would be established on this net position. As liquidity improves to the point where the monthly block trades on a discrete basis, the hedge management will be shifted to an examination of monthly positions on a stand-alone basis with the appropriate monthly hedge positions established.

(iii). Tier Three – Floor Limit

This tier facilitates the establishment of hedge positions when it is deemed that the benefit of maintaining participation in a further price decline is less than the benefit of reducing the exposure to a potential upside price movement. These positions are not established based on a price view – IPC fully recognizes that after these positions are established, there is a material probability that prices will fall. However, to reiterate, the ability to avoid any negative exposure to a potential price rise is deemed to be more valuable than the retention of further downside price participation.

The tier involves the establishment of HL and LL price targets for forecast deficiency positions under both the expected scenario and the low water scenario. The limits are established by the RMC after consultation with the IPUC and customer groups. The limits are described in Appendix F.

The Tier Three limit structure will take precedence over Tier One and Tier Two limit structures. First, Tier Three hedges will always serve to reduce the risk of a variance between the BECF and the low water/high price and as a result there is no concern that Tier Three positions will lead to an unwanted violation of the Tier One Limit. Tier Three hedges may result in violations of the Tier Two limit structure – low-water deficiencies may be covered by long positions that result in monthly surplus positions in the case of expected water that exceed the Tier Two limit. In this scenario, the Tier Three hedges would be maintained because of the relative risk trade-off that drives the Tier Three limit structure.

Hedges will be established and removed in minimum tranches as described in Appendix F.

(iv). Breach of Limits

The worst-case price, worst-case load, worst-case hydro scenario may result in a breach of the System Risk Limit for two reasons:

- adverse power market movements, changes in load forecasts or reductions in hydro availability could serve to increase the forecasted year-end PCA balance;
- increasing power price volatility.

The Volumetric Limits could be breached by altered forecasts of hydro availability.

If the risk analysis reveals that hedging action is required under any of the three tiers, the IPC Trader must enter into cost-effective risk management transactions that reduce positions below the risk limits. If market conditions prevent efficient execution of the requisite risk-reducing transactions, or if forecast results for outlying months rely too heavily on estimated weather and hydro conditions, the IPC Trader will approach the RMC for a deferral of the execution of these transactions. Prior to granting approval to this deferral, the President, must be notified and provided with an explanation for the decision to defer the risk-reducing activity, so that the President, can approve the decision to defer the risk-reducing activity.

All members of the RMC and the President will receive daily notification and ongoing reports detailing any limit breach, until this breach is rectified.

(v). Day-Ahead Risk Approach

It is the policy of IPC that it will enter each day in a forecast flat position whenever possible. Day-ahead transactions will be established to reduce or eliminate whenever possible any hourly surplus or deficit positions. The objective of this policy is to mitigate customer and shareholder exposure to the extreme volatility that can occur on a real-time basis.

B. The Prospective Market Risk Approach

(i). Market Risk Definition

In the future, market risk will encompass a broader definition than the definition used for the interim approach. Market risk for the Company will be defined as the uncertainty with respect to PCA balances caused by changes in anticipated market pricing for natural gas, power, generation unit outages, hydro availability, transmission constraints and customer load. Market risk will be defined in quantitative form as PCA-at-risk ("PCAR"). The PCAR measures the extent to which the PCA balance may deviate from forecast expectations within a statistically defined confidence interval based on movements in market prices, generation resources and customer load.

(ii). Market Risk Quantification

Determining the Company's PCAR involves complex arithmetic modeling. It will be the responsibility of the IPC Risk Evaluation function to develop and refine the optimal quantitative model that generates a PCAR estimation that is credible, reproducible and can be determined in a timely fashion.

There are several parameters associated with the PCAR calculation that will be governed by the Manual:

- **holding period**. The PCAR will be based on a holding period through the conclusion of the relevant exposure period. The current-year risk calculation will be through the conclusion of the current PCA year. The subsequent year risk calculation will be through the conclusion of the subsequent PCA year.
- **confidence interval**. The PCAR will be based on a confidence interval defined in an appendix.

The selection of other modeling parameters will be at the discretion of the IPC Risk Evaluation group. This discretion will apply to a number of parameters including:

- the anticipated volatility in model inputs like power prices, natural gas prices, fuel oil prices, transmission constraints, load and generation statistics, foreign exchange and interest rates;
- the distributional characteristics of these variables;
- the correlation between the input variables.

A fundamental component of the Company's ongoing risk analysis is the updated forecast of the year-end PCA balance based on current expectations of future power and natural gas prices, load and generation resources over the remainder of the exposure period. The updated end-of-year PCA balance information is required to manage the Company's risk profile because it provides senior management with ongoing snapshots of performance versus budgeted expectations.

(iv). System Risk Limit

IPC will calculate on an as needed basis the current forecast year-end PCA balances and also the PCAR. These two amounts will be summed and compared against the System Risk Limit established in the collaborative approach between IPC and customer representatives.

(v). Breach of System Risk Limit

The sum of the forecast year-end PCA balance and the PCAR can increase above the approved System Risk Limit for several reasons:

- adverse market movements, alterations in load or reductions in generation availability could serve to increase the forecasted year-end PCA balance;
- increasing volatility in the parameters impacting the PCA balance can lead to an increase in the PCAR.

Should the sum of the forecast year-end PCA balance and the PCAR reveal that the System Risk Limit has been breached, the IPC Trader must enter into cost-effective risk management transactions that reduce the year end forecast PCA plus the PCAR below the System Risk Limit. If market conditions prevent efficient execution of the requisite risk-reducing transactions; the IPC Trader will approach the RMC for a deferral of the execution of these transactions. Prior to granting approval to this deferral, the President must be notified and provided with an explanation for the decision to defer the risk-reducing activity, so that the President can approve the decision to defer the risk-reducing activity in conjunction with the RMC.

All members of the RMC will receive daily notification and ongoing reports detailing any risk limit breach, until this breach is rectified.

VI. Credit Risk

A. Credit Risk Defined

Credit exposure is defined as the risk that a counterparty to a transaction will be unable to fulfill its present and future financial obligations to the Company. This credit exposure would extend to counterparties with whom the Company trades physical commodities, as often payment for the delivery of the product does not occur until after delivery has been made in full. In addition, substantial unrealized gains or losses may accrue in physical contracts prior to any delivery obligation. Credit exposure also exists for Over-the-Counter (OTC) traded derivative transactions, as the value of outstanding contracts can escalate substantially over time without the counterparty having to post or deposit any security in the form of the payment of collateral.

Managing credit exposure becomes an important component in the overall risk management program. The creditworthiness of trading partners, both in the physical and financial marketplace, becomes a function of both qualitative and quantitative factors, centered on the credit rating assigned a counterparty by the major credit rating services or an internal evaluation of the counterparty's ability to pay. Information relating to the credit standing of any given trading partner can be determined by factors such as its credit rating published by one of the commonly recognized rating agencies, market intelligence, electronic news releases and other public information sources.

B. Counterparty Credit Standards

Credit exposure to any given counterparty consists of three components. The first is the traditional measure of credit risk – accounts receivable. The second is the cost of replacing the instrument in the marketplace today, defined as a trading position's current or "mark-to-market" value. The third is an estimate of the future replacement cost of a transaction, known as the Credit Value-at-Risk ("CVAR") which uses a probability analysis over the remaining term.

The current replacement cost of a transaction evaluates the actual risk to the Company that a counterparty will fail to perform on its financial commitments. This is the current value of the transaction to the Company based on the movement in the price of the underlying market relative to the contract price, and can be either a positive or a negative amount. If the market value of the transaction is negative (i.e., the Company owes money to the counterparty based on a mark-to-market valuation) then there will be no current replacement cost exposure. Quantification of current exposure to a counterparty is a function of a mark-to-market calculation.

Potential credit exposure (CVAR) to any counterparty is a more complex issue, and involves a probability component which takes into account the underlying market volatility anticipated during the period in which the transaction will remain open. The IPC Risk Evaluation group will use a methodology involving the observed volatility of the underlying commodity applied to the underlying volume and term of the transaction to determine the CVAR amount.

It is important in an analysis of credit risk to determine whether netting applies to the counterparty with whom the Company has a number of open positions. Gross exposure measurement weighs equally the absolute value of both positive and negative exposures, while netting allows a consolidated measurement of the net exposure. Exposures will be netted whenever the contracts with the counterparty provide for this practice.

Monitoring credit information of counterparties and assigning counterparty credit limits shall be performed by the IPC Treasury group or its designee. Credit and term limits for each category of counterparty are defined in the Appendix D. Calculation and distribution of the counterparty credit analyses are to be performed independent of the execution function, ensuring appropriate segregation of duties within the Company.

Treasury will prepare and distribute the status of a Corporate Counterparty Credit Analysis to the IPC Risk Evaluation group and the RMC members. Once counterparty credit limits are established the IPC Risk Evaluation group will track and report the aggregate amounts of outstanding credit categorized by individual counterparty. Distribution of credit reports is described in the Management Reporting section of this Manual.

C. Extension of Credit

The Company will enter into transactions with a counterparty only when the CVAR, when added or netted with the current credit exposure with the same counterparty for such transaction, will not exceed the maximum limit and term based on the assigned credit rating assigned to that counterparty. It is the responsibility of the IPC Risk Evaluation group to communicate the amounts of credit available for each counterparty to the IPC Trader at intervals specified in the Management Reporting section of this Manual.

D. Limit Exception Process

The IPC Trader will immediately suspend initiation of additional business with individual counterparties where that specific counterparty's credit limit has been reached or exceeded. This situation might occur due to an increase in volatility and/or market price movements adversely impacting the counterparty's position with the Company. A report will be generated daily by the IPC Risk Evaluation group while the counterparty maintains a credit exposure to the Company beyond its assigned limit, and be distributed as described in the Management Reporting section of this Manual. Any member of senior management may call a special meeting of the RMC to review alternatives relating to the credit standing of the counterparty in violation of credit standards. These alternatives could include unwinding all or part of the open positions creating the credit exposure as permitted by contract, continued monitoring of the situation, or calling for some form of collateral to be posted by the counterparty.

Under no circumstances is the IPC Trader permitted to knowingly increase the credit exposure to a counterparty that has exceeded its approved level of credit with the Company until Treasury reviews the credit limit and grants written authorization.

E. Credit Exposure Reporting

Reporting of credit exposures should provide management with relevant, accurate and timely information about counterparty credit exposures and approved lines of credit. Reporting of credit exposure against pre-defined limits shall be done weekly in the Weekly Position report generated by the IPC Risk Evaluation group. Exceptions and changes to a published credit rating or outlook would be documented in the Counterparty Credit Analysis report generated monthly by Treasury.

VII. Performance Benchmarking

The performance benchmarking of the Risk Management Program will be based quantitatively on the degree to which the PCA balance is restricted within the System Risk Limit. The program will also be judged on the effectiveness of the collaborative approach established between IPC and customer representatives in an effort to mitigate negative regulatory hindsight reviews of the risk management activity. The middle office and front office functions will also be benchmarked against the qualitative criteria outlined below.

A. Middle Office Function – IPC Risk Evaluation Group

The middle office function will be evaluated on the following points:

- effective communication of the Company's risk position to the RMC;
- development of appropriate monitoring and reporting systems that meet best industry practices and external audit standards;
- timely production of meaningful risk position reports;
- development of the advanced quantitative model to assess the Company's risk position;
- co-operative relationships with other business units within the Company;
- firm wide and external education with respect to market concepts and risk management practices; and
- contribution to a favorable external characterization of the Company's energy risk management process.

B. Front Office Function – IPC Trader

The front office function will be benchmarked from the perspective of adherence to this Manual and to the Procedures Manual with respect to the timely execution of requisite risk management transactions.

VIII. Systems and Accounting

A. Systems

Initially, an information system (the "System") shall be maintained by IE to identify, track, quantify and report all outstanding elements of the Company's portfolio that are subject to variances in power prices, and hydro availability. The System will track both market risk and credit risk over the time horizon delineated in this Manual. It is the responsibility of the IPC Risk Evaluation Group to implement and monitor the System to ensure that the integrity, timeliness, and accuracy of the information provided are consistent with the Company's requirements for control over the risk portfolio.

B. Accounting for Transactions

For external reporting, audit, and control purposes, the process of accounting for transactions is a key element that must be adhered to at all times, and is described in greater detail in the Company's Energy Risk Management Procedures Manual.

IX. Documentation, New Product Initiation

A. Legal Documentation

To ensure an appropriate level of control, the following policies shall govern documentation of external transactions that involve the establishment of pricing mechanisms for power:

> Physically-settled transactions shall be governed by the Company's standard agreements or such other agreements that reflect generally accepted commercial practices for the underlying marketplace and the Company's criteria for physically-settled transactions. These agreements will typically be the WSPP agreement for electricity transactions.

The Treasury group with assistance from the Legal Department, is responsible for negotiating original documentation with all counterparties and having it signed by the appropriate officer of the Company as soon as possible following initiation of transactions, and in any event within ninety days of the initial transaction activity with a counterparty. If the appropriate Document is not signed within 90 days, the RMC will be notified through the Counterparty Credit Analysis report with an explanation as to why the Document has not been signed and an estimate as to when a Document may be signed. If the transaction is pending execution of a Document, and has a contract term beyond the current PCA year, the RMC will be notified immediately following the transaction in the form of the Counterparty Credit Analysis report if a document has not been signed.

All confirmations for transactions with a counterparty that has not signed a Document must provide that the Company may terminate the physically-settled or financially-settled transaction if a Document cannot be negotiated and signed within a defined time frame of 90 days.

Confirmations of transactions, payment advice and all other correspondence sent by counterparties with regard to risk management transaction activity and the transfer of money, either by wire transfer or by mail, shall be directed to the attention of the Treasury Department. This is done with the intent of maintaining a level of segregation of responsibility from the risk management function within the Company.

Only those signatures that appear in Appendix C - Authorized Signatories can bind the Company to confirmations and/or master contracts with external counterparties.

B. *New Product Initiation Process*

A new product is a pricing mechanism, commodity or commodity delivery point that is sufficiently different from the slate of instruments and markets previously approved under this Manual that it has a notably differing risk profile or it requires different systems, operational procedures or accounting treatment.

A new product would also include those instruments that may be transacted on a "one-off" basis, which would be implementation of a derivative instrument or entry into a commodity market that, despite the anticipation of being transacted just once, would still fit the definition of a new product.

The purpose of defining a process for the introduction of a new product or instrument is to ensure that the exposures associated with it are thoroughly reviewed and understood by the RMC. On an interim basis, the President must approve the use of all new products or the entry into different commodity markets prior to execution of any such transaction by the Company, with formal ratification by the Board of Directors on a quarterly basis. Products approved for trading are listed in Appendix E, and any new products that receive approval would be added to the list as an amendment to that Appendix.

The IPC Trader has the responsibility to define the rationale for each of the new products introduced to the Company in a formal presentation to the RMC, demonstrating that the new product meets certain criteria. In the presentation to the RMC, a business case should be put forth that includes the following:

Business Rationale

1. A written description of the product, which includes the purpose, function, expected profitability and benefit to the Company;

2. An analysis of the appropriateness of the new product in relation to the Company's overall strategy;

3. An analysis of the availability of liquidity in the marketplace for the new product;

4. A comparison or differentiation from existing approved product;

5. Internal evaluation of the exposure profile of the product, including detailed stress testing of the product over a broad range of market scenarios and the associated exposure implications;

6. Demonstration of the in-house expertise to manage and support the new product, and

7. Assurance that an assessment of the potential risks has been completed by the appropriate departments within the Company.

Management Responsibilities

1. A brief description of the responsibilities of the various departments within the Company who will have any manner of contact with the new product;

2. Proposed credit and market exposure implications and proposed limits;

3. Proposed reporting requirements, including any changes to existing procedures and systems requirements growing from the addition of this new product; and

4. Legal, taxation and internal audit review, as necessary, for associated implications to those departments.

No product or geographic region other than those listed in Appendix E are authorized until the President has approved them.

The IPC Risk Evaluation Group in conjunction with IPC trading must immediately report any transactions that involve any commodities or markets that are not pre-approved to the RMC via an immediate publishing on the Exception Report.

X. Management Reporting

This Manual describes various reports to be generated by different groups within Company. The following table describes those reports, their normal frequency, distribution, and the originator of the report:

Report	Content	Distribution	Normal Frequency	Originator
Daily Position Report	(a)	RMC Members President IPC Trader IPC Risk Evaluation Group Treasury	Daily	IPC Risk Evaluation Group
Weekly Position Report	(a)	RMC Members President IPC Trader IPC Risk Evaluation Group Treasury IPUC Staff	Weekly	IPC Risk Evaluation Group
Annual Benchmarking Report	(b)	RMC Members President Board of Directors IPC Risk Evaluation Group IPC Trader	Annual	RMC
Counterparty Credit Analysis Report	(c)	RMC Members IPC Trader IPC Risk Evaluation Group	Monthly	IPC Risk Evaluation Group
Exception Report	(d)	RMC Members President Treasury	As required	IPC Risk Evaluation Group
Minutes of RMC	(e)	RMC Members Treasury IPC Risk Evaluation Group	Soon after RMC meeting	RMC Secretary

A. Daily and Weekly Position Report

The content of the Daily and Weekly Position Report is intended to summarize the open positions and exposures of the Company. It will include:

i. Current and forecast end-of-year PCA balance;
ii. Forecast end-of-year PCA balance based on worst-case price, worst-case hydro scenario and a comparison to the System Risk Limit;
iii. Monthly average MW volume for on-peak and off-peak and a comparison to monthly average MW position limits;
iv. current exposure and credit availability to each counterparty; and
v. summary of executed term transactions since the publication of the previous report.

B. Annual Benchmarking Report

The Annual Benchmarking Report assesses the extent to which the program is achieving its risk management objectives from a quantitative and qualitative perspective based on the criteria established in Section VII of this report.

C. Counterparty Credit Analysis

The counterparty credit analysis contains:

i. a review of approved limits for each counterparty and credit rating classification
ii. an analysis of open credit exposure
    a. classified by counterparty
    b. by groupings of credit classification
iii. an editorial review of counterparty credit environment
iv. notes of "pending" status during the period between the transaction and execution of documentation

D. Exception Log

The Exception Log records all exceptions to normal execution and clearing of transactions, including amendments to existing transactions. The detail included in the report shall include:

i. date exception took place
ii. type of exception
iii. individual responsible for exception, counterparty involved (where applicable)

iv. steps taken to rectify the noted exception
v. date and documentation of corrective action taken

E. *Minutes of the RMC Meetings*

Documented minutes of the RMC meeting, including discussion and recommendations, soon after every RMC meeting.

XI. Restricted Activities and Disciplinary Action

To ensure that all employees adhere to guidelines and limitations specified in this Manual, disciplinary action will be taken in the event of a breach of Manual. Depending on the nature and extent of the Manual breach, such disciplinary action may lead to termination of employment and criminal prosecution.

The use and disclosure of the financial results, material facts, or information produced through the Risk Management Program is considered to be sensitive, confidential business information. The disclosure of any confidential information associated with the Risk Management Program, beyond the disclosure authorized in this Manual and the accompanying Procedures Manual, is prohibited.

Appendix A: Board Resolution

Resolution of the Board of Directors Mandating an Energy Risk Management Program for Idaho Power Company

In the normal course of conduct of its business activities, Idaho Power Company ("IPC" or "the Company") and its customers are exposed to a number of business and market-driven variables that can impact the cost of power. The IPC Board of Directors therefore deems it prudent for the Company to engage in energy risk management activities designed to systematically identify, measure, evaluate and manage both the physical and financial exposures to business and market-driven uncertainties within a defined and controlled framework, in collaboration with customer representatives. It is the Board's desire to mandate a program that conforms to its intent to create a risk management control framework. Accordingly, the Board of Directors hereby enacts the following resolutions:

In order to authorize IPC to act in accordance with the Board's desire to develop and maintain a risk management control framework, the Board enacts the following resolution:

Resolution 1: A Committee of Senior Management, called the Risk Management Committee ("RMC") is hereby commissioned. The Board appoints the Vice President of Power Supply to serve as Chairperson of this Committee who will appoint its membership from time to time. The RMC shall be comprised of a balanced composition of Senior Management members ensuring that both the short-term and the long-term business interests of IPC will be considered.

In order to establish broad guidelines that will govern the risk management activities and define management responsibilities in accordance with Board objectives for a defined and controlled framework, the Board enacts the following resolution:

Resolution 2: The RMC shall be responsible to the Board of Directors and is charged with the overall direction, conduct, control and performance of an ongoing Energy Risk Management Program (the "Program") designed to systematically identify, quantify and manage the exposure of IPC and its customers to the uncertainties related to the energy markets in which the Company is an active participant. In the performance of this mandate, the RMC shall be responsible for developing, documenting and communicating a cohesive Energy Risk Management Policy Manual governing risk management activities.

In order to keep the Board apprised of the risk management activities and Program parameters with defined regularity, the Board enacts the following resolution:

Resolution 3: The RMC shall report annually to the Board on the nature of IPC's exposure profile and on the results of the energy risk management activities and annually to obtain approval of IPC's Energy Risk Management Program.

Appendix B: IPC Risk Management Committee Members

Darrel Anderson
Ric Gale
LaMont Keen
Bart Kline
Jim Miller
John Prescott

Appendix C: Authorized Signatories on Behalf of the Company

- LaMont Keen
- James Miller
- John Prescott

Appendix D: Counterparty Credit Standards

Counterparty Scoring Table and Limits

Internal Credit Rating	Limit	Maximum Term
Investment Grade	$2 million per counterparty	2 years

Appendix E: Approved Instruments, Markets

Financial Swaps and Options

None

Physical Arrangements

Underlying Markets:	Mid-Columbia and Palo Verde power markets
Permitted Instruments:	Fixed Price Indexed to the published indices (i.e. Dow Jones)
Term:	18 months

APPENDIX F: RISK GUIDELINES FOR THE 2002-2003 AND 2003-2004 PCA YEARS

TIER ONE-

System Risk Limit	$100 million
Hedges Established	25 MW tranches
Hedges Removed	50 MW tranches

TIER TWO-

Volumetric Limit	+/-100 MW
Hedges Established	25 MW tranches
Hedges Removed	50 MW tranches

TIER THREE-

Floor Limits	Heavy Load	Light Load
Expected Forecast	$30	$15
Low-Water Forecast	$20	$10

Hedges Established	25 MW tranches
Hedges Removed	50 MW tranches

The RMC may modify its hedging activities associated with each Tier constraint in order to recognize more efficient market transactions (i.e. buy for a quarter instead of individual months).

The above limits will be reviewed and adjusted by the RMC in conjunction with customer representative, IPUC Staff, and IPC President input prior to October 1st of each year.